

# FDIC State Profile

Spring 2006

## Alaska

Alaska added jobs faster than the national pace.

- At 1.6 percent, year-over-year employment growth in Alaska outpaced the nation, but slowed from the state's third quarter rate of 1.9 percent. Rising crude oil prices pushed up natural resources hiring by 9.6 percent, the highest year-over-year rate among the state's major industry sectors.
- Job growth was driven in part by healthy, albeit slowing, gains in construction employment (see Chart 1). The Institute of Social and Economic Research (ISER), projects public and private construction spending in Alaska to increase by 13 percent to \$6.5 billion during 2006. Construction outlays related to oil and gas, utilities, and education are expected to drive more than 80 percent of the net increase.<sup>1</sup>
- Nearly three-fourths of the state's net new jobs were added in **Anchorage**. Despite its proximity to the energy-rich North Slope, employment growth slowed markedly in **Fairbanks**, where the pending realignment of Eielson Air Force Base remains a significant risk to job growth.

Alaska homebuilding activity moderated, while price gains accelerated.

- Under pressure from rising interest rates and building costs, residential building permits declined in 2005 (see Chart 2). In 2006, ISER expects gains in the state's residential construction spending to be modest, reflecting rising input costs.
- Alaska home prices appreciated by 14.1 percent year-over-year during fourth quarter 2005, slightly outpacing a national average of 13 percent.<sup>2</sup> Home price appreciation reached 15.1 percent in Anchorage and 9.3 percent in Fairbanks.

Chart 1: Construction Job Growth in Alaska Has Been Particularly Strong, But Is Volatile

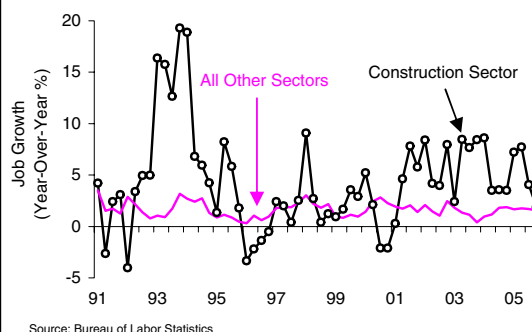


Chart 2: Alaska Multi-Family Permit Activity Declined During 2005

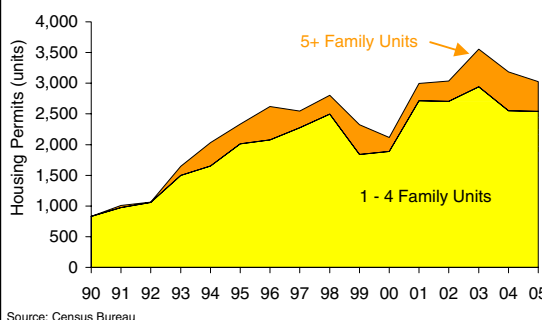
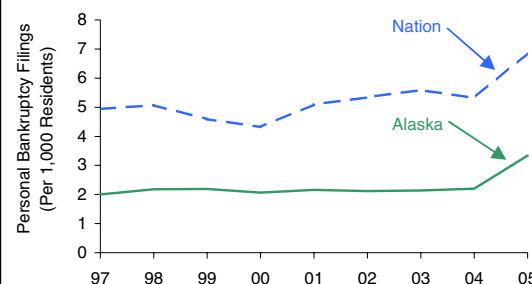


Chart 3: The Bankruptcy Filing Rate Increased in Alaska in 2005



<sup>1</sup>Scott Goldsmith and Mary Killorin, "Alaska's Construction Spending: 2006 Forecast," Institute of Social and Economic Research, University of Alaska Anchorage.

<sup>2</sup>Based on data from the Office of Federal Housing Enterprise Oversight.

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- Innovative mortgages and investors may be influencing housing demand.<sup>3</sup> Interest-only and negative amortization loans accounted for 23 percent of non-prime mortgage originations in Alaska in the first 11 months of 2005. During the same period, investors and second-home purchasers accounted for 26 percent of Alaska Alt-A mortgage originations.

### The personal bankruptcy filing rate increased in Alaska in 2005.

- Alaska's personal bankruptcy rate increased to 3.3 filings per thousand residents during 2005, but remained well below the national pace (see Chart 3). Filing activity was more pronounced later in the year, prior to the enactment of new bankruptcy legislation that was implemented in October 2005.
- Despite higher personal bankruptcy filings, year-end median consumer loan delinquencies at Alaska-based institutions improved year-over-year.

### A growing share of Alaska-based institutions reported elevated exposures to commercial real estate (CRE).

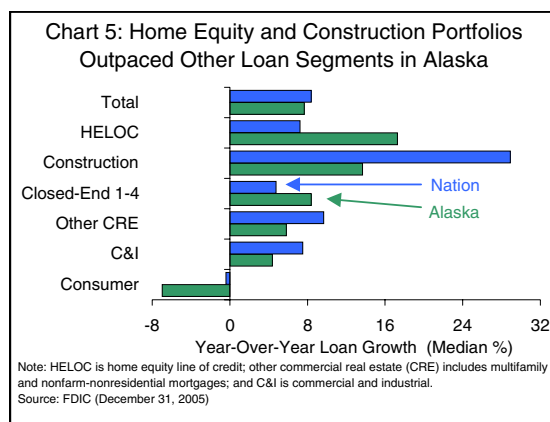
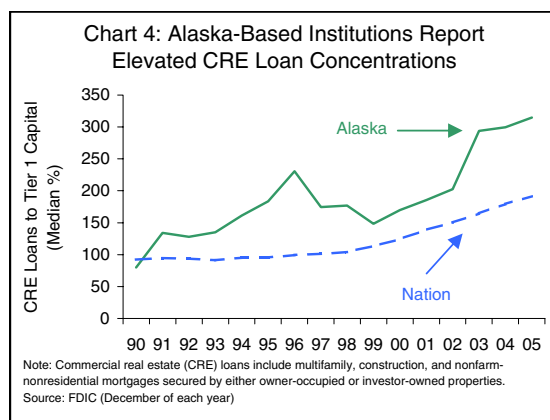
- The median CRE loan-to-Tier 1 capital ratio among Alaska's institutions was 315 percent, up steadily since the late 1990s (see Chart 4).
- During 2005, Anchorage Class A office vacancies were near 5.5 percent, and Class B and C office availability was 10 percent.<sup>4</sup> ISER expects CRE construction expenditures to grow 20 percent in the state during 2006, driven in part by convention center and museum projects in Anchorage. Elevated concentrations of CRE loans may leave some institutions vulnerable to adverse changes in market conditions.
- As of fourth quarter 2005, a declining share of CRE borrowers made late payments. Among Alaska-based institutions, past-due CRE loans were 0.54 percent of total CRE loans, down from 0.99 percent in late 2004.

### Rising interest rates boosted net interest margins (NIMs) but tempered investment portfolio values and loan growth.

- Alaska-based institutions reported robust earnings during late 2005. The median fourth quarter pretax return on assets ratio gained strongly year-over-year to 1.66 percent, ninth best among the states. Increases in asset yields outpaced funding costs, in part because of the high proportion of non-interest bearing deposits held by Alaska-based institutions.

- Rising interest rates reduced securities gains and created net unrealized portfolio losses among most Alaska-based banks. In contrast, during late 2004, portfolios contained modest gains on net, and securities sales boosted earnings among one-third of Alaska-based banks. Investment portfolios represent an important 40 percent of bank and thrift balance sheets and may be vulnerable to additional pricing pressure should interest rates rise further.

- Past-due loan levels improved to 0.73 percent, down from 1.69 percent one-year ago, and well below a nationwide median of 1.34 percent.
- Median year-over-year loan growth of 7.7 percent during 2005 lagged the nation slightly and slowed modestly from a year-earlier pace of 8.7 percent. Growth in home equity lines of credit and construction portfolios continued to outpace other major loan categories (see Chart 5).



<sup>3</sup>Based on subprime and Alt-A private mortgage securitizations tracked by LoanPerformance. Alt-A loans include mortgages that have near-prime credit quality, lack full loan documentation, or are secured by investor properties.

<sup>4</sup>Based on data from Schwamm & Frampton, LLC ([http://www.sfalaska.com/market\\_report.asp](http://www.sfalaska.com/market_report.asp)).

## Alaska at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.6%	1.9%	2.0%	1.6%	1.5%
Manufacturing (4%)	-1.2%	2.2%	3.4%	5.1%	3.4%
Other (non-manufacturing) Goods-Producing (9%)	4.7%	4.9%	3.1%	2.6%	1.1%
Private Service-Producing (60%)	1.6%	2.1%	2.6%	2.2%	1.5%
Government (26%)	0.7%	0.0%	0.1%	-0.4%	1.2%
Unemployment Rate (% of labor force)	6.9	6.7	7.3	7.4	7.7

<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	5.7%	5.8%	4.4%	3.4%
Single-Family Home Permits	25.8%	-15.0%	-25.5%	3.8%	0.6%
Multifamily Building Permits	1.4%	3.0%	-17.0%	-24.1%	39.1%
Existing Home Sales	28.4%	11.7%	3.1%	25.0%	7.0%
Home Price Index	14.1%	12.5%	10.7%	10.1%	4.9%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	4.96	3.67	2.58	2.20	2.14

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	7	7	7	7	7
Total Assets (in millions)	4,102	4,103	3,893	3,893	3,863
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	1	1	1	1	1

<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.73	1.76	1.69	1.69	2.20
ALLL/Total Loans (median %)	1.19	1.14	1.05	1.05	1.17
ALLL/Noncurrent Loans (median multiple)	1.76	1.78	1.70	1.70	1.69
Net Loan Losses / Total Loans (median %)	0.01	0.06	0.06	0.16	0.05

<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.11	8.98	9.29	9.29	8.92
Return on Assets (median %)	1.20	1.24	0.89	0.95	1.46
Pretax Return on Assets (median %)	1.66	1.76	1.20	1.33	1.59
Net Interest Margin (median %)	5.31	5.20	4.99	4.88	4.86
Yield on Earning Assets (median %)	6.63	6.30	5.66	5.42	5.89
Cost of Funding Earning Assets (median %)	1.41	1.24	0.80	0.69	0.84
Provisions to Avg. Assets (median %)	0.07	0.09	0.10	0.09	0.12
Noninterest Income to Avg. Assets (median %)	0.93	1.08	0.87	0.94	1.21
Overhead to Avg. Assets (median %)	3.84	3.94	3.91	3.78	3.86

<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	52.6	51.2	50.8	50.8	47.7
Noncore Funding to Assets (median %)	16.1	14.6	14.2	14.2	17.7
Long-term Assets to Assets (median %, call filers)	19.5	14.7	17.5	17.5	17.1
Brokered Deposits (number of institutions)	2	2	2	2	2
Brokered Deposits to Assets (median % for those above)	3.3	2.0	1.7	1.7	1.7

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	108.1	110.0	115.8	115.8	122.8
Commercial Real Estate	314.9	307.6	299.7	299.7	293.8
<i>Construction &amp; Development</i>	57.1	57.1	54.9	54.9	39.7
<i>Multifamily Residential Real Estate</i>	7.9	8.1	6.9	6.9	6.5
<i>Nonresidential Real Estate</i>	265.5	255.2	267.0	267.0	263.5
Residential Real Estate	95.2	97.4	84.7	84.7	80.8
Consumer	29.2	31.3	35.1	35.1	36.5
Agriculture	2.1	2.0	1.5	1.5	0.1

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Anchorage, AK	5	3,429	< \$250 million	4 (57.1%)
Fairbanks, AK	6	804	\$250 million to \$1 billion	2 (28.6%)
			\$1 billion to \$10 billion	1 (14.3%)
			> \$10 billion	0 (0%)